



# Finance

ACCOUNTING

# 2021 INVENTORY



**Business  
Education**

**English  
Edition**

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# Finance

## ACCOUNTING

### INVENTORY

A Guide to Financial & Management Accountants for  
Students, Business Owners, and Finance Professionals

Saif Ahmad Alazraq

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# INVENTORY

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# Introduction

The science of accounting has captured a large and increasing amount of interest from both academic and professional stakeholders, this is because of the specificity of this science in that it requires an integrated theoretical and practical blend of concepts, foundations and their applications, And because in light of the existing scientific and technical development, accounting must keep pace, influence and be affected according to the requirements of its interrelationship and integration with the rest of sciences and other fields of knowledge in the service of its goals as it is in the service of society.

During my study of accounting science, I was faced with the problem of choosing one reference book that answers all my questions, which is characterized by comprehensive coverage, simplicity of presentation, and the link between the intellectual framework and the practical procedures in a sequential and regular manner, hence the motivation for preparing this book, which came as a result of long learning and experience in this field.

While writing the book, I took care of a number of considerations, the most important of which are the following:

- ✓ Balance between theoretical framework and practical application.
- ✓ Presenting contemporary accounting concepts and definitions.
- ✓ Simplify the presentation without prejudice to the essence.
- ✓ Comprehensive coverage of the most important topics.
- ✓ Methodology and gradual presentation of topics.
- ✓ Developing analytical skills.

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your thoughts on the material of this book

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## Theoretical conceptual framework for accounting

### What is the accounting?

Accounting consists of a set of assumptions, principles and standards prepared by experts and accepted by practitioners in general. Each profession develops a frame of reference to enable them to carry out their duties and direct their behavior and procedures in order to achieve the goals set and the workflow in a systematic and clear manner. Accountants follow specific standards in handling financial operations and reporting on the resulting accounting information to serve internal and external users in making their economic decisions, accounting rules are called generally accepted accounting principles (GAAP).

### Emergence and establishment of the science of accounting

Man has known “accounting” since the beginning of civilization, and no civilization has emerged without accounting as one of its basic pillars and an important and prestigious branch of knowledge and it has had the historical importance that it has acquired since ancient times, as accounting did not arise out of a vacuum, but rather emerged and developed as an urgent need to meet the needs of society from Information for decision-making and its development did not happen suddenly or at once, and among the most famous ancient civilizations in which the accounting system emerged (Pharaonic civilization, Babylonian civilization, Roman civilization, Greek civilization, and also Islamic civilization). The science of accounting appeared in 1494 AD at the hands of the Italian mathematician (Luca Pacioli), who was a friend of (Leonardo da Vinci), and a contemporary of the traveler (Christopher Columbus), who established the system that is based on recording financial operations efficiently and effectively, and the rules of the accounting profession developed with the passage of Time through scientific and professional accounting complexes (syndicate) and universities on the other

hand. This scientific cooperation has resulted in the creation of an approved theoretical and conceptual framework.

- ❖ Financial Accounting Standards Board (FASB), established in 1973 and represents the competent authority to issue financial accounting standards in the United States of America.
- ❖ International Accounting Standards Board (IASB), established in 1973 and represents the body responsible for issuing international accounting standards approved in accounting registration and auditing.

International accounting standards have met with general international acceptance in all countries of the world. The clear trend towards the globalization of the economy has resulted in the globalization of accounting science by adopting unified international accounting standards taking into account some of the national peculiarities of each country.

### **The importance of accounting**

The importance of financial accounting appears through the set of procedures that it undertakes, to reflect its impact on all parties concerned with the organization's activity, both internally and externally, which it collects, organizes, and presents financial data in a form of important information to the beneficiaries.

## First: Inventory

Inventory is one of the most important elements of the current assets of many companies. Inventory takes various forms in projects with different activities. International Accounting Standard No. 2 entitled “Inventory” defines: It is the sum of goods that are purchased with the aim of reselling them in the course of the business activity of the establishment, goods that are under production or manufacturing for the purpose of sale within the industrial activity, and goods in the form of materials or supplies that are consumed in the production process or the provision of services is also included in the inventory.

- ❖ It can be said that inventory in **commercial establishments** are goods that are purchased for the purpose of reselling them and seeking to make a profit from dealing with them. So they are classified in one group.
- ❖ As for the inventory in **industrial establishments**, it is classified into several categories, including:
  - A. Stock of raw materials** it includes all materials that are mainly used in the production of the commodity, such as wood in the manufacture of furniture, and ready-made materials such as the lock (Zervil) in the manufacture of doors.
  - B. Stock of goods under manufacture** it is the merchandise that is still in the production process and its production has not been completed until the last day of the financial period.
  - C. Stock of finished goods** existing in the warehouses of the industrial facility that have not been sold until the end of the financial period.
- ❖ There are also inventory in-service **establishments**, which are the materials that are consumed during the provision of services, such as (gasoline, cleaning materials, etc.).

## Standard objective

International Accounting Standard No. {2} aims to describe the accounting treatment of inventory, as the standard provides guidelines and rules that show how to determine the cost of inventory. The standard also shows how to recognize inventory as an asset and then how to recognize it as an expense later. As well as showing how to determine the net realizable value of inventory and clarifying the methods of measuring inventory cost.

## Standard scope

This caliber applies to all inventory except for:

- A. Works under construction arising from construction contracts, and directly related service contracts, which are dealt with under International Accounting Standard No. {11} "Construction Contracts".
- B. "Financial instruments" that are processed under International Accounting Standard No. {39} and International Standard on Financial Reporting No. {9}.
- C. biological assets associated with agricultural activity and agricultural production up to the point of harvest, which are accounted for in accordance with International Accounting Standard No. {41} "Agriculture".

## What Is the Difference Between Inventory and Stock?

**Stock** It is everything that is purchased for the purpose of reselling it, whether it is a product ready for sale or raw materials that are included in the process of making a product for the purpose of sale or materials that are consumed for the purpose of production.

**Inventory** It is a more comprehensive word that includes stock, as well as everything related to material assets such as stationery, computers, etc., and everything that is entered into warehouses for the purpose of sale or other uses.

## Second: Types of Inventory

There are many types of inventory and different specifications:

- 1) Raw materials:** It includes all the main raw materials that directly enter the production process or that make an effective contribution to the production process, and other materials necessary for the functioning of the production process. These in turn are divided into:
  - A. Ores: whether they are in their natural form, such as iron, petroleum, cement, and the like, or manufactured ores, such as those items that have undergone some operations such as spinning and others.
  - B. Manufactured parts: which are purchased ready-made for the purpose of installing them in a product, as is the case in the assembly industry such as the electronics industry and many others.
- 2) Operation and maintenance materials:** they are not included in the composition of the product, but they are necessary to create the production and service departments.
- 3) Packaging materials:** It is what is needed to prepare and preserve products for sale.
- 4) Stationery and publications:** they are mostly consumed in the administrative departments and are included in the administrative expenses.
- 5) Complete production:** are the finished products from the outputs of the production process in the form of goods or products.
- 6) Incomplete production:** These are the raw materials on which some industrial operations have been carried out and still require other operations.
- 7) Goods:** are goods that the facility buys with the intention of reselling them, and this process is considered a commercial activity.



### **Third: Inventory Counting and Determine its Ownership and Control**

There is no doubt that tight control over the cycles of the production cycle of the commodity inventory and the consequent expenses automatically affect the cost of production and the profitability of the project. The commodity inventory is one of the elements of assets and the commodity inventory affects each of:

- A. Income statement when matching sales revenue at cost of goods sold.
- B. The balance sheet, as the inventory of goods is one of the components of current assets.

#### **There are two main objectives of inventory checking:**

- A. Verify the existence and ownership in accordance with the balances in the books.
- B. Protect inventory from theft or loss.

#### **Among the methods used in inventory protection:**

The use of receipt and delivery vouchers and store cards for each item of inventory, conducting a sudden physical inventory to ensure its existence, validity and good use, and some companies resort to insurance with an insurance company for people who entrust them with valuable assets against breach of trust. Accounting systems rely heavily on computer systems to store data, which helps to know the ledger balance constantly. The inventory counting contributes to increasing the effectiveness of the internal control system in protecting assets. The inventory process can be carried out once at the end of the accounting period and it is called the Periodic Inventory System, or on a continuous basis, which is called the Perpetual Inventory System.



**To achieve a good control over the inventory, there are measures that must be taken:**

1. Separation of the inventory-holding function from the Inventory bookkeeping function.
2. It is preferable to separate the function of checking the inventory from the function of disbursing the goods from the stores.
3. Recording the received and delivered inventory in the inventory cards and in the books, and making continuous reconciliations.
4. The inventory counting process should be carried out in the presence of the storekeeper.
5. Matching inventory details as per the inventory counting lists with the inventory records.
6. Ensure ownership of inventory by noting the following:
  - A. Is there any goods on the way?
  - B. Does the facility have goods in trust that belong to others or vice versa?
  - C. Does the facility have any remaining goods in its branches located in other geographical areas?

## **Fourth: Recording Goods Operations under the Periodic Inventory System and the Perpetual Inventory System**

The operations of purchasing goods and managing them within the project, preparing them for sale, and then selling them, are integrated operations that take place under an accounting system commensurate with the project's needs and capabilities in controlling purchase, storage, exchange, returns and balance.

### **Goods Recording System in the Books:**

- **Periodic inventory system:** Under this system, we do not keep a detailed record of the goods in the stores, and we determine the cost of the goods sold at the end of the accounting period, usually in a periodic form.
- **Perpetual inventory system:** Under this system, the cost of the purchased inventory and the inventory sold is recorded in detail, which enables us to know the inventory balance and the cost of sales, and thus the cost of the remaining goods, at every increase or decrease in the inventory of the goods, without the need for an actual inventory counting.

The differences between the two systems in the accounts used when recording goods operations:

<b>Perpetual Inventory System</b>	<b>Periodic Inventory System</b>
First: Operations during the financial period	First: Operations during the financial period
<b>1) Accounts relating to purchases of goods:</b> A. Inventory	<b>1) Accounts relating to purchases of goods:</b> A. Purchases B. Purchase returns and allowances C. Purchase Discount D. Purchase fees and commissions
<b>2) Accounts relating to sales of goods:</b> A. Sales B. Sales returns and allowances C. Sales discount D. Selling fees and commissions E. Cost of goods sold  ❖ The cost of goods sold is calculated at each sale, and a separate account appears in the ledger. ❖ Remaining goods balance during the financial period is known, it is recorded in the accounting books.	<b>2) Accounts relating to sales of goods:</b> A. Sales B. Sales returns and allowances C. Sales discount D. Selling fees and commissions  ❖ The cost of goods sold is not calculated at each sale, and no account appears for it. ❖ The balance of the remaining goods during the financial period is unknown, as it is not recorded in accounting.
Second: Operations at the end of the financial period	Second: Operations at the end of the financial period
<b>1.</b> The actual inventory counting of the remaining goods at the end of the financial period and compared with their balances in the records. The remaining cost is calculated on time (after each sale process). <b>2.</b> There is no need to record the remaining goods at the end of the financial period, because it appears in the ledger as a balance in the goods inventory account. <b>3.</b> The cost of goods sold appears directly in the income statement, as it has its own account balance in the ledger.	<b>1.</b> The actual inventory counting of the remaining goods is carried out at the end of the financial period and its cost is calculated. <b>2.</b> After determining the cost of this remaining goods at the end of the financial period, it is recorded in the ending goods account. <b>3.</b> The cost of goods sold is deduced mathematically by displaying the accounts related to purchases and the remaining goods in the income statement.

## Illustrative example of a comparison between periodic inventory and perpetual inventory

The following operations were carried out by Noon stores:

1. On 01-Apr/2020 Noon stores purchased 300 units of goods, the purchase price of the unit is \$10 dollars on the credit account from the supplier Ahmad.

Perpetual Inventory System	Debit	Credit	Periodic Inventory System	Debit	Credit
Merchandise Inventory	3000		Purchases	3000	
Accounts Payable - Ahmad		3000	Accounts Payable - Ahmad		3000

2. On 03-Apr/2020, Noon stores returned 20 units of the purchased goods for violating the specifications.

Perpetual Inventory System	Debit	Credit	Periodic Inventory System	Debit	Credit
Accounts Payable - Ahmad	200		Accounts Payable - Ahmad	200	
Merchandise Inventory		200	Purchases Returns		200

3. On 06-Apr/2020 Noon stores paid to supplier Ahmad the credit account, and got a 3% discount for cash payment.

Perpetual Inventory System	Debit	Credit	Periodic Inventory System	Debit	Credit
Accounts Payable - Ahmad	2800		Accounts Payable - Ahmad	2800	
Cash		2716	Cash		2716
Merchandise Inventory		84	Purchases Discount		84
			(3000-200) x 3% = 84		

4. On 08-Apr/2020 Noon stores sold 220 units at a selling price of \$15 dollars per unit on the account of the customer Sarah, provided that the buyer's shops are delivered.

Perpetual Inventory System	Debit	Credit	Periodic Inventory System	Debit	Credit
Accounts Receivable - Sarah	3300		Accounts Receivable- Sarah	3300	
Sales		3300	Sales		3300
			220 x 15 unit selling price = 3300		
Cost of Goods Sold	2200		No entry is recorded at cost, as the cost of the sold goods will be determined mathematically at the end of the financial period, where the remaining cost and the cost of goods sold are determined at the end of the period.	-	
Merchandise Inventory		2200			-
220 x 10 unit purchase price = 2200					

5. On 10-Apr/2020 Noon Stores paid \$100 dollars in cash for the shipping costs of the sold goods to the customer Sarah.

Perpetual Inventory System	Debit	Credit	Periodic Inventory System	Debit	Credit
Sales Transportation Exps.	100		Sales Transportation Exps.	100	
Cash		100	Cash		100

6. On 11-Apr/2020, Sarah returned to Noon stores part of the sold goods, 10 units, for violating the specifications.

Perpetual Inventory System	Debit	Credit	Periodic Inventory System	Debit	Credit
Sales Returns	150		Sales Returns	150	
Account Receivable – Sarah		150	Account Receivable – Sarah		150
			10 x 15 unit selling price = 150		
Merchandise Inventory	150		No entry is recorded at cost of goods sold	-	
Cost of Goods Sold		150			-

7. On 13-Apr/2020, Noon stores collects from customer Sarah the previously sales made on account. And gave her a cash discount to expedite payment by 2%.

Perpetual Inventory System	Debit	Credit	Periodic Inventory System	Debit	Credit
Sales Discount	63		Sales Discount	63	
Cash	3087		Cash	3087	
Account Receivable –Sarah		3150	Account Receivable –Sarah		3150
			(220-10) x 15 = 3150		

We note from the previous operations that there is no difference between the periodic inventory system and the Perpetual inventory system in recording sales operations, and there is a difference in recording purchases, We find that the **perpetual inventory system** is unique in the two accounts (**Merchandise Inventory, cost of goods sold**), while the **periodic inventory system** is unique to the following four accounts:

**(Purchases, Purchase Returns, Purchase Transportation Expense, Purchase Discount).**

The **perpetual inventory system** works by recording the **cost of goods sold**, which allows to know the balance of the remaining goods at any time, and the balance of the remaining goods under the **periodic inventory system** can only be known after the **actual Inventory counting of the goods inventory**.

In order to better identify the differences between the two systems, we show the accounts for the goods in the ledger, through the following posting process:



Perpetual Inventory System				Periodic Inventory System			
The Different Accounts							
D. Merchandise Inventory C.				D. Purchases C.			
01-Apr	3000	03-Apr	200	01-Apr	3000		
11-Apr	150	06-Apr	84				
		08-Apr	2200				
Total	3150	Total	2484				
Balance	666						
D. Cost of Goods Sold C.				D. Purchases Returns C.			
08-Apr	2200	11-Apr	150			03-Apr	200
Balance	2050						
				D. Purchases Discount C.			
						06-Apr	84
The Similar Accounts							
D. Sales C.				D. Sales C.			
		08-Apr	3300			08-Apr	3300
D. Sales Transportation Expenses C.				D. Sales Transportation Expenses C.			
10-Apr	100			10-Apr	100		
D. Sales Returns C.				D. Sales Returns C.			
11-Apr	150			11-Apr	150		
D. Sales Discount C.				D. Sales Discount C.			
13-Apr	63			13-Apr	63		

## **Fifth: Methods of Determining Inventory Cost**

Determining the cost of goods sold is very important from an accounting point of view on the other hand, an important factor in determining the cost of goods at the end of the period, as it is reduced from the cost of goods available for sale (according to the periodic inventory system).

And based on the principle of consistency, which requires the facility to follow the same the method in previous financial cycles and the current financial cycle that you have adopted in determining the cost of the remaining goods at the end of the year. The full disclosure principle also requires mentioning the method that was followed in determining the inventory when disclosed in the balance sheet, the facility may choose one of the these methods are commensurate with the nature of the goods dealing with, and can be divided cost determination methods (cost of goods sold and remaining) can be divided into three ways:

- 1) Specific Cost Method.
- 2) Default Flow Method, includes:
  - ❖ First In First Out (FIFO).
  - ❖ Last In First Out (LIFO).
  - ❖ Weighted Average (WA).
- 3) Inventory estimate method, includes:
  - ❖ Gross Profit Margin Style.
  - ❖ Retail Style.

### **1) Specific cost method**

It is the preferred method to follow whenever possible. The specific cost method can be applied in the establishments that trade in types and a limited number of goods (cars, Machines, apparatus, etc.).

Example (1): The specific cost method: the remaining is from one meal only.

A commercial facility purchased the following goods during the financial year 2020:

1. (11) units, the unit cost is \$5 dollars On 01-Jan/2020.
2. (12) units, the unit cost is \$6 dollars On 01-Feb/2020.
3. (13) units, the unit cost is \$7 dollars On 01-Mar/2020.
4. (14) units, the unit cost is \$8 dollars On 01-Apr/2020.

During the year, the facility sold the first three meals that were purchased on the dates (01/Jan, 01/Feb and 01/Mar), thus, only the last fourth meal remained. For the purpose of simplifying the process of determining the cost of goods sold and the cost of goods remaining, we present the following figure:

Meal	Units Sold	Units Remaining	Unit Price	Cost of Goods Sold	Cost of Goods Remaining
01-Jan	11 units		x \$5	= \$55	
01-Feb	12 units		x \$6	= \$72	
01-Mar	13 units		x \$7	= \$91	
01-Apr		14 units	x \$8		= \$112
Total	36 units	14 units		\$218	\$112

Example (2): The specific cost method: The remaining is from several different meals.

If we assume the same data as the first example above, except that the remaining quantity at the end of the period amounted to 14 units of different meals, the details of which are:

(2) units of 01/Jan meal, (3) units of 01/Feb meal, and (10) units of a 01/Apr meal. Therefore, the cost of goods sold and the cost of goods remaining will be as follows:

Meal	Units Sold	Units Remaining	Unit Price	Cost of Goods Sold	Cost of Goods Remaining
01-Jan	9 units		x 5\$	= 45\$	
01-Feb	9 units		x 6\$	= 54\$	
01-Mar	13 units		x 7\$	= 91\$	
01-Apr	4 units		x 8\$	= 32\$	
01-Jan		2 units	x 5\$		= 10\$
01-Feb		3 units	x 6\$		= 18\$
01-Apr		10 units	x 8\$		= 80\$
Total	35 units	15 units		222\$	108\$

It is clear that the inventory has been determined with certainty and in kind from the purchase meal to which it belongs, and thus its purchase price can be known.

The practical reality in commercial activity, especially in establishments that deal with many items, multiple purchases, variable prices for each deal from the other, and the inability to ensure that the arrangement of its storage and disposal was done on the basis of their prices, all make the application of the specific cost method impractical and impossible. For all this appeared several alternative proposed methods.

**2) Default Flow Method, includes:**

- ❖ First In First Out (FIFO).
- ❖ Last In First Out (LIFO).
- ❖ Weighted Average (WA).

One of these styles can be chosen in accordance with the work activity. Although the International Accounting Standard has canceled in its recent amendments, the style of “Last in, First out” (LIFO), but it will be addressed for educational purposes as it is in the old and modern scientific references.

At the beginning of the chapter, we explained that there are two systems for recording goods operations in the accounting records: the **periodic inventory system** and the **perpetual inventory system**, as we indicated that the facility chooses one of these two systems.

Because of the difference between the nature of the accounting work of the two systems (different entries and different types of accounts used), the time in which one of the methods of calculating the cost of inventory of goods is used varies. Under the **periodic inventory** system we determine at the end of the financial period that is once a year the cost of goods at the end of the period by conducting an actual physical inventory counting. Under the **perpetual inventory** system, there is a need to use one of these methods at each date on which the sale of goods takes place, in order to arrive at the cost of the goods that were sold on that date and prove it in accounting, as well as to determine the cost of the goods available for sale and remaining in the stores on each date.

Each of the previous standards will be applied once if the facility follows the periodic inventory system and again if the facility follows the perpetual inventory system:

Example (1): The default flow method for recording goods operations according to the periodic inventory system.

Suppose that the following information about the goods belongs to the Khalil Trading Establishment, which applies the periodic inventory system to record the operations of the goods:

- On 01/Jan -2020, the goods at the beginning of the period was (20) units, the cost of one unit was \$5 dollars.
- Purchases of goods during the year 2020 were:
  - a. (30) units, unit cost \$6 dollars on 03-Mar/2020.
  - b. (40) units, unit cost \$7 dollars on 20-Jul/2020.
  - c. (20) units, unit cost \$8 dollars on 09-Dec/2020.
- 70 units were sold at a selling price of \$10 dollars per unit.

Required:

1. Determining the cost of goods sold and the cost of goods remaining at the end of the period 31-Dec/2020 when each of the following styles is followed:
  - First In First Out (FIFO).
  - Last In First Out (LIFO).
  - Weighted Average (WA).
2. Proof of goods counting entry on 31-Dec/2020 according to the three styles (followed in the periodic inventory system).
3. Preparing the income statement in 2020 according to the three styles.

We include the following table to facilitate understanding the style of determining the cost of goods sold and the cost of goods at the end of the period.



1. Determining the cost of goods sold and the cost of goods remaining at the end of the period 31-Dec/2020 when each of the following styles is followed:

- First In First Out (FIFO)

Meal	Units Sold	Units Remaining	Unit Price	Cost of Goods Sold	Cost of Goods Remaining
01-Jan	20 units		x \$5	= \$100	
03-Mar	30 units		x \$6	= \$180	
20-Jul	20 units		x \$7	= \$140	
20-Jul		20 units	x \$7		= \$140
09-Dec		20 units	x \$8		= \$160
Total	70 units	40 units		\$420	\$300

Cost of goods available for sale = Beginning goods + Cost of goods purchase

$$\$720 \text{ dollars} = (20 \text{ units} \times \$5) + \{(30 \times 6) + (40 \times 7) + (20 \times 8)\}$$

$$\$720 \text{ dollars} = \$100 \text{ dollars} + \$620 \text{ dollars}$$

Cost of goods Sold = Cost of goods available for sale – Ending goods

$$\$420 \text{ dollars} = \$720 \text{ dollars} - \{(20 \times 7) + (20 \times 8)\}$$

$$\$420 \text{ dollars} = \$720 \text{ dollars} - \$300 \text{ dollars}$$

Cost of goods remaining = Cost of goods available for sale – Cost of goods Sold

$$\$300 \text{ dollars} = \$720 \text{ dollars} - \$420 \text{ dollars}$$

▪ Last In First Out (LIFO)

Meal	Units Sold	Units Remaining	Unit Price	Cost of Goods Sold	Cost of Goods Remaining
01-Jan	20 units		x \$8	= \$160	
03-Mar	40 units		x \$7	= \$280	
20-Jul	10 units		x \$6	= \$60	
20-Jul		20 units	x \$6		= \$120
09-Dec		20 units	x \$5		= \$100
Total	70 units	40 units		\$500	\$220

Cost of goods available for sale = Beginning goods + Cost of goods purchase

$$\$720 \text{ dollars} = (20 \text{ units} \times \$5) + \{(30 \times 6) + (40 \times 7) + (20 \times 8)\}$$

$$\$720 \text{ dollars} = \$100 \text{ dollars} + \$620 \text{ dollars}$$

Cost of goods Sold = Cost of goods available for sale – Ending goods

$$\$500 \text{ dollars} = \$720 \text{ dollars} - \{(20 \times 6) + (20 \times 5)\}$$

$$\$500 \text{ dollars} = \$720 \text{ dollars} - \$220 \text{ dollars}$$

Cost of goods remaining = Cost of goods available for sale – Cost of goods Sold

$$\$220 \text{ dollars} = \$720 \text{ dollars} - \$500 \text{ dollars}$$

- Weighted Average (WA)

Meal	Units Available		Unit Price		Cost of Goods Available
01-Jan	20 units	x	\$5	=	\$100
03-Mar	30 units	x	\$6	=	\$180
20-Jul	40 units	x	\$7	=	\$280
09-Dec	20 units	x	\$8	=	\$160
Total	110 units				\$720

$$\text{Weighted Average} = \frac{\text{Cost of goods available for sale}}{\text{Units Available for sale}} =$$

$$\$6.545 \text{ dollars} = \frac{\$720 \text{ dollars}}{110 \text{ units}}$$

$$\text{Cost of goods Sold} = \text{Units of goods Sold} \times \text{Weighted Average}$$

$$\$458 \text{ dollars} = 70 \text{ units} \times \$6.545 \text{ dollars}$$

$$\text{Cost of goods remaining} = \text{units of goods remaining} \times \text{Weighted Average}$$

$$\$262 \text{ dollars} = 40 \text{ units} \times \$6.545 \text{ dollars}$$

It can be verified that the above calculations are correct by making the total equal to the cost of goods available for sale:

$$\$458 \text{ dollars} + \$262 \text{ dollars} = \$720 \text{ dollars cost of goods available for sale}$$

A comparison between the results of the three styles according to the default flow method according to the periodic inventory system

<b>Cost Available for Sale</b>		<b>First In First Out (FIFO)</b>	<b>Last In First Out (LIFO)</b>	<b>Weighted Average (WA)</b>
<i>Beginning inventory</i>		\$100	\$100	\$100
<i>Cost of goods purchased</i>	+	\$620	\$620	\$620
<i>Cost of goods available</i>	=	\$720	\$720	\$720
<i>Cost of goods remaining</i>	-	\$300	\$220	\$262
<i>Cost of goods Sold</i>	=	\$420	\$500	\$458
<i>Cost of goods remaining</i>	+	\$300	\$220	\$262
<i>Cost of goods available</i>	=	\$720	\$720	\$720

2. Proof of goods accounting entry on 31-Dec/2020 according to the three styles (periodic inventory system).

<b>Date</b>	<b>Description</b>	<b>Debit</b>	<b>Credit</b>
	Goods entry 31-Dec/2020 according to the First In First Out (FIFO) style		
31-Dec	Ending inventory	300	
	Income Summary		300
	Goods entry 31-Dec. according to the Last In First Out (LIFO) style		
31-Dec	Ending inventory	220	
	Income Summary		220
	Goods entry 31-Dec/2020 according to the Weighted Average (WA) style		
31-Dec	Ending inventory	262	
	Income Summary		262

Date	Description	Debit	Credit
	Sales Cycle Closing		
31-Dec	Sales	700	
	Income Summary		700

3. Preparing the income statement in 2020 according to the three styles.

Description	FIFO		LIFO		W.A.	
	Partial	Total	Partial	Total	Partial	Total
Net sales		700		700		700
Beginning inventory	100		100		100	
Cost of goods purchased	620		620		620	
Cost of goods available	720		720		720	
(-) Ending inventory	300		220		262	
Cost of goods sold		(420)		(500)		(458)
Gross profit of sales		280		200		202
(-) Operating expenses		(0)		(0)		(0)
Net operating profit		280		200		202

It is clear from the above that adopting any of the above methods will result in costs that differ from the results of other methods. Since the cost of goods sold is an expense and appears in the income statement deducted from net sales, a change in its cost calculation will affect the result of the establishment's activity from profit or loss. As for the cost of goods at the end of the period, it is a current asset and appears in the balance sheet, so any change in it means a change in the financial position of the facility. Therefore the facility must be consistent in applying the style it has chosen. And if the facility is forced to

change the previously approved style, it must fully disclose the reasons for it to change and the effects of this change on the financial statements in the year of change.

Example [2]: The default flow method for recording goods operations according to the perpetual inventory system.

Suppose that the following data pertain to the goods that are dealt with by one of the shops that apply the perpetual inventory system to record the goods:

1. Purchase (10) units, the unit cost is \$3 dollars on 05-Jan/2020.
2. Purchase (20) units, the unit cost is \$6 dollars on 07-Jan/2020.
3. Selling (25) units, the unit selling price is \$8 dollars on 09-Feb/2020.
4. Purchase (20) units, the unit cost is \$5 dollars on 03-Jun/2020.
5. Selling (15) units, the unit selling price is \$10 dollars on 01-Aug/2020.
6. Purchase (10) units, the unit cost is \$9 dollars on 12-Nov/2020.

Required:

1. Proof of daily entries for previous operations.
2. Determining the cost of the goods sold and the cost of the remaining goods at the end of the period 31-Dec/2020 when each of the following styles is followed:
  - First In First Out (FIFO).
  - Last In First Out (LIFO).
  - Moving Average (MA).
3. Preparing the income statement for the year 2020.



## 1. The daily entries of previous financial operations during 2020.

Date	Description	Debit	Credit
05-Jan	Merchandise Inventory	30	
	Cash		30
	Buy /10/ units at \$5 per unit		
07-Jan	Merchandise Inventory	120	
	Cash		120
	Buy /20/ units at \$6 per unit		
09-Feb	Cash	200	
	Sales		200
	sale /25/ units at \$8 per unit		
	Sale 25 units: The cost of goods sold varies according to the style used: According to FIFO, it is \$120 dollars. According to LIFO, it is \$135 dollars. According to MA, it is \$125 dollars. Accounting entry is according to FIFO:		
09-Feb	Cost of Goods Sold	120	
	Merchandise Inventory		120
	sale /10/ units at \$3 per unit		
	sale /15/ units at \$6 per unit		
03-Jun	Merchandise Inventory	100	
	Cash		100
	Buy /20/ units at \$5 per unit		

---

01-Aug	Cash	150	
	Sales		150
	sale /15/ units at \$10 per unit		

---

Sale 20 units: The cost of goods sold varies according to the style used:  
According to FIFO, it is \$80 dollars.  
According to LIFO, it is \$75 dollars.  
According to MA, it is \$100 dollars.  
Accounting entry is according to FIFO:

01-Aug	Cost of Goods Sold	80	
	Merchandise Inventory		80
	sale /5/ units at \$6 per unit		
	sale /10/ units at \$5 per unit		

---

12-Nov	Merchandise Inventory	90	
	Cash		90
	Buy /10/ units at \$9 per unit		

---

**Important result:**

**According to the Perpetual inventory system, there is no special entry for the inventory at the end of the period 31-Dec, the inventory balance recorded in the books must match the reality of the actual inventory counting 31-Dec.**

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Important Note: (The effect on Taxes) Some companies, especially commercial and industrial ones, resort to taking the style that achieves the highest value for the cost of goods sold, which leads to a reduction in net profits, which would reduce the value from which income tax is deducted by the amount of the difference between the three styles as it is shown in the previous example.

2. Balance of cost of goods sold according to the default flow method according to the three styles (perpetual inventory system): We include the following table to facilitate understanding the method of determining the cost of goods sold and to clarify the differences between the three styles.

Cost of goods sold on 09-Feb/2020	Cost of goods sold on 01-Aug/2020
First In First Out (FIFO)	First In First Out (FIFO)
10 units x \$3 unit price = \$30 15 units x \$6 unit price = \$90 \$30 + \$90 = \$120 cost of goods sold	5 units x \$6 unit price = \$30 10 units x \$5 unit price = \$50 \$30 + \$50 = \$80 cost of goods sold
Last In First Out (LIFO)	Last In First Out (LIFO)
20 units x \$6 unit price = \$120 5 units x \$3 unit price = \$15 \$120 + \$15 = \$135 cost of goods sold	15 units x \$5 unit price = \$75 cost of goods sold
Moving Average (MA)	Moving Average (MA)
10 units x \$3 unit price = \$30 20 units x \$6 unit price = \$120 $\frac{\text{Cost of goods available for sale}}{\text{Number of units available for sale}} =$ $\frac{150 \text{ dollars}}{30 \text{ units}}$ $= \$5 \text{ unit price} \times 25 \text{ units sold} = \$125$ cost of goods sold	5 units x \$5 unit price = \$25 20 units x \$5 unit price = \$100 $\frac{\text{Cost of goods available for sale}}{\text{Number of units available for sale}} =$ $\frac{125 \text{ dollars}}{25 \text{ units}}$ $= \$5 \text{ unit price} \times 20 \text{ units sold} = \$100$ cost of goods sold

The balance of cost of goods sold for the two periods according to the three styles:

FIFO = 120 + 80 = \$200 dollars

LIFO = 135 + 75 = \$210 dollars

MA = 125 + 100 = \$225 dollars

## Moving Average Method

It is also a weighted average method, but it is preferred to call it the moving average method when applying the perpetual inventory system. This is due to the fact that it is calculated many times during one financial cycle, after each new commodity entry movement, as a new moving average is produced. In the periodic inventory system, the weighted average is calculated only once at the end of the financial cycle.

The method of calculating the cost of the remaining goods according to FIFO:

Date	Buy			Sale			Balance		
	Units	Unit Cost	Total Cost	Units	Unit Cost	Total Cost	Units	Unit Cost	Total Cost
<b>05-Jan</b>	10	3	30						
<b>07-Jan</b>	20	6	120				5	6	30
<b>09-Feb</b>				10	3	30			
				15	6	90			
<b>03-Jun</b>	20	5	100				10	5	50
<b>01-Aug</b>				5	6	30			
				10	5	50			
<b>12-Nov</b>	10	9	90				10	9	90
<b>Total Cost</b>			340			200			140

Cost of goods available for sale =  $30 + 120 + 100 + 90 = \$340$  dollars

The balance of the cost of the remaining goods according to the three styles:

Cost of remaining goods (end of period) FIFO =  $340 - 200 = 140$

Cost of remaining goods (end of period) LIFO =  $340 - 210 = 130$

Cost of remaining goods (end of period) MA =  $340 - 225 = 115$

We note that the cost of goods available for sale is fixed and does not change when the style used changes, while a change appears in determining the cost of goods sold, which leads to an automatic change in determining the cost of remaining goods, and it must be known that this difference is reflected in the result of the project activity (net profit or net loss), as well as on the financial position of the project expressed through the budget, as the current assets will be affected by the cost of goods at the end of the period, and consequently the owner's equity will be affected due to the effect of net profit or net loss, which represents part of the owner's equity.

Inventory movement according to the first-in-first-out (FIFO) style

Debit <span style="float: right;">Credit</span> <b>Merchandise Inventory</b>					
Date	Description	Amt.	Date	Description	Amt.
05-Jan	Cash	30	09-Feb	Cost of Goods Sold	120
07-Jan	Cash	120	01-Aug	Cost of Goods Sold	80
03-Jun	Cash	100			
12-Nov	Cash	90			
	Total	340		Total	200
	Debit balance	140			
	(transferred to the balance sheet)				

From the above table, it is clear that under the perpetual inventory system, it is possible to know the balance of the cost of goods remaining on any date and after each transaction, as it represents the balance of the inventory, and the cost of goods sold is determined for each sale separately and on the same date of sale. This cannot be achieved under the periodic inventory system except at the end of the financial year.

### 3. Income statement for the year 2020 according to the three methods.

Description	FIFO	LIFO	W.A.
Net sales	350	350	350
Cost of goods sold	200	210	225
Gross profit of sales	150	140	125
(-) Operating expenses	0	0	0
Net operating profit	150	140	125

### 3) Inventory estimate methods: It is a type of estimated periodic inventory

#### A. Gross profit margin style (periodic inventory).

Establishment's inventory counting of the remaining goods to verify existence and thus determine their cost. Sometimes a physical inventory counting may be impractical. In this case, establishments follow alternative measures to roughly determine the cost of the remaining inventory. One such style is the gross profit margin style. Auditors often follow this method to estimate the cost of inventory, Auditors often follow this method to estimate the cost of inventory, for the purpose of preparing the quarterly or semi-annual interim financial statements. It is also followed by the management of the facility in the event of emergency incidents such as fire, or flooding of warehouses and damage to part of its goods.

This method is based on three assumptions:

1. Calculating the beginning inventory of the period plus the cost of the purchased goods, i.e. determining the calculation of the cost available-for-sale.
2. Assuming that the unsold goods is remaining.
3. Reducing sales to their cost, the gross profit margin is deducted from them.



The approximate inventory cost is determined based on the following equation:

$$\text{Estimated inventory cost} = \text{Cost of goods available for sale} - \text{Estimated cost of sales}$$

Example: Estimating the cost of inventory at the end of the period according to the gross profit margin style:

Suppose that Samir establishment had inventory at the beginning of the cycle, which cost \$20,000 that the cost of goods purchased during the cycle was \$100,000, and that sales were \$130,000. The practical experiences of previous financial cycles and similar establishments show that the ratio of gross profit margin to sales is estimated at 40% of the selling price.

Required: Determine the approximate cost of the remaining inventory at the end of the financial cycle.

Description	Selling price	The Cost
<b>First cycle inventory (at actual cost)</b>	20000	
<b>(+) Goods purchased (at actual cost)</b>	100000	
<b>= Goods available for sale (at actual cost)</b>	120000	
<b>Net sales (sale price)</b>		130000
<b>(-) Estimated gross profit</b>		52000
<b>Sales cost (at estimated cost)</b>	(78000)	
<b>Approximate inventory cost 31-Dec</b>	42000	

## B. Retail style (periodic inventory).

Accounting for inventory in retail establishments faces some challenges. Firms that sell goods of limited types and numbers, such as establishments for buying and selling cars or large agricultural machinery...etc., can use the specific cost method. While other establishments sell retail goods of various types and of different values, it is difficult for them to determine the cost of the sold goods or the remaining goods of each type of goods they deal with (establishments selling industrial tools or selling school supplies...), therefore, such establishments resort to the Retail style.

Under this style, the facility is required to keep books of the following:

1. The total cost of the goods purchased and their retail selling value.
2. The total cost of goods available for sale and its retail selling value.
3. The actual sales value during the period.

From the above data, the following can be extracted:

1. The remaining goods at the end of the period at the retail price, by deducting the actual sales value from the goods available for sale, denominated at the retail price.
2. The ratio of cost to retail selling price by dividing the cost of goods available for sale at the retail price.
3. Estimating the cost of inventory at the end of the period, by multiplying the remaining goods at the end of the period by the retail price in the ratio of cost to the retail price.

In order to know how to arrive at calculating the estimated cost of inventory at the end of the period, we present the following example:

Example: Estimating the cost of inventory at the end of the period according to the retail style

Suppose the following data is from a retail market:

1. Beginning inventory: cost is \$28,000 and retail price is \$40,000.
2. Purchases during the year 2020: at a cost of \$126,000 (\$124,000 purchases, \$3,000 purchase discounts, \$5,000 inward transportation fees) and its retail price is \$180,000.
3. Actual sales during the year are \$170,000.
4. Ending inventory at a retail price of \$50,000.

Required: Determine the cost of the remaining goods at the end of the period 31-Dec/2020.

Description	Retail Selling	The Cost
<b>Beginning Inventory 01-Jan/2020</b>	40000	28000
<b>(+) purchased</b>	180000	126000
<b>= Goods available for sale</b>	220000	154000
<b>(-) sales</b>	170000	
<b>= Ending Inventory 31-Dec/2020 (sale price)</b>	50000	
<b>Cost ratio to sale price (154000÷220000)</b>		%70
<b>Ending inventory at cost 31-Dec (50000x70%)</b>		35000

## Sixth: Inventory Cost Components

In general, Should include inventory cost on all costs incurred until the inventory is ready for sale and placed in its current condition and location. Therefore, the items included in the calculation of inventory cost include the following:

### 1. Purchase costs:

- The purchase price minus the purchase discount and purchase returns.
- Non-refundable customs duties and taxes.
- Transportation, loading, unloading, clearance and any other expenses directly attributable to the purchase process.

### 2. Production costs: This type of cost appears in industrial establishments that convert raw materials into ready-to-sale goods and include the following:

- ❖ Transfer costs include costs directly related to production units, such as direct wages. It also includes the orderly loading of the fixed and variable indirect production costs that are incurred in converting raw materials into finished goods. the fixed indirect industrial costs; They are the indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation, maintenance expenses for buildings, plant equipment, and plant management costs. As for variable indirect industrial costs, they are those costs that change directly or semi-directly, with the volume of activity, such as indirect materials and indirect wages.
- ❖ The fixed indirect manufacturing costs are charged on the basis of the normal production capacity of the facility, where the normal capacity of the facility is calculated as an average of the expected production for a number of periods, and the actual production level may be relied upon in this case if it is close to the normal production capacity of the facility, In the periods in which the actual production is less than the estimated

normal production capacity, the difference is charged for the period as an expense, but in the case of an increase in the actual production capacity than the normal production capacity, the difference works to reduce the cost of the units produced and so that the inventory is not measured at more than its cost.

- ❖ If there are several products that are produced from one production process, In this case, the costs must be distributed to the products in a logical manner, and the distribution process must be regular from period to period, and the estimated sales value method for each product can be used as a basis for distribution.
3. When there are secondary products of low relative importance, the collectible value of these products is estimated and that value is deducted from the cost of the main products.
  4. Other costs included in the inventory cost other indirect costs such as costs for designing a product based on a customer's request.

Costs that are not included in the cost of inventory (to be treated under expenses):

- A. Abnormal damage, and normal damage is considered part of the cost of inventory.
- B. Storage costs, unless production requires a special storage process during production through several production stages.
- C. Administrative expenses not related to production.
- D. Selling and marketing costs.
- E. Foreign currency differences resulting from a change in the exchange rate related to the purchase of goods or raw materials in a foreign currency and pay it later.
- F. Borrowing or financing costs. When inventory is purchased on deferred payment terms, and so that the repayment period is longer than the normal repayment period, and so that the price includes an increase over



the normal purchase price, the difference between the purchase price under normal selling conditions and the amount paid, is an interest expense charged on the period of payment deferment.

**Inventory costs for service providers:**

In the event of an unfinished service at the end of the period, some cases may require capitalization of costs spent on the service up to the date of budget preparation. In this case, the inventory costs for the service include all the wages and salaries related to the service provided, including the salaries and bonuses of the staff supervising the provision of the service, as well as other expenses for completing the service such as transportation. The cost of labor and other costs related to sales and administration personnel are not considered part of the cost of inventory, but the expenses of a period. The cost of a service provider's inventory does not include profit margins or non-attributable overheads that are generally used in prices that service providers offer to their customers.

**The cost of the agricultural product harvested from biological assets**

Within the International Accounting Standard {41} "Agriculture", the inventory component includes agricultural products harvested by a project from its biological assets and is valued upon initial recognition at its fair value at harvest minus costs up to the point of sale. This is the cost of inventory when applying this standard {IAS 2} after harvest.

Example (1):

Lulu Trading Company purchases various commodities from East Asian countries for the purpose of exporting and selling them to countries around the world. The company has incurred the following amounts during the year 2020:

1. Cost of purchases (based on supplier invoices).



2. Commercial discounts on purchases.
3. Import duties.
4. Shipping and purchase insurance.
5. Other handling costs related to imports.
6. Salaries of the Accounting Department.
7. The brokerage commission is payable to the employed agents in return for arranging the import operations.
8. Sales commission payable to sales agents.
9. After-sales warranty costs.

Required: Lulu Trading Company asks for your opinion about the costs that are allowed under international accounting standard {IAS 2} to be included in the cost of inventory.

Example answer {1}:

Under International Accounting Standard No. {2}, items with numbers (1, 2, 3, 4, 5, and 7) are included in the cost of inventory. As for (6) accounting department salaries / (8) sales commission for sales agents / and (9) after-sales warranty costs, they are not considered part of the inventory cost.

Example {2}:

From the books of the European Union establishment, the following data were extracted at the end of the financial year 2020:

Purchase Discount \$4,000 / Purchases Transportation Expense \$5,000 / Sales \$200,000 / Purchases \$120,000 / Beginning Inventory \$18,000 / Ending Inventory \$20,000 / Sales Discount \$10,000 / Purchase Returns \$3,000 / Purchase Commission \$1,000 / Sales Returns \$2,000 / Operating expenses of \$60,000.

Required: Determine each of the following (net sales, cost of goods purchased, cost of goods sold, gross profit, net profit).

Example answer (2):

Net Sales = Gross sales - Sales Discount - Sales Returns =

Net Sales = \$200,000 - \$10,000 - \$2,000 = \$188,000 dollars

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Net Purchases = Gross Purchases - Purchase Returns - Purchase Discount =

Net Purchases = \$120,000 - \$3,000 - \$4,000 = \$113,000 dollars

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Purchases Cost =

Net Purchases + Purchases Transportation Expense + Purchase Commission =

Purchase Cost = \$113,000 + \$5,000 + \$1,000 = \$119,000 dollars

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Cost of Goods Sold = Beginning Inventory + Purchases Cost - Ending Goods =

Cost of Goods Sold = \$18,000 + \$119,000 - \$20,000 = \$117,000 dollars

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Gross Profit = Net Sales - Cost of Goods Sold =

Gross Profit = \$188,000 - \$117,000 = \$71,000 dollars

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Net profit = Gross Profit - Operating expenses =

Net profit = \$71,000 - \$60,000 = \$11,000 dollars

## Seventh: Inventory Valuation

Inventory valuation is vital in the world of business and commerce, as it represents an important percentage in the budget assets of most establishments. Therefore, inventory valuation affects the volume and rates of working capital.

Through the foregoing, it was clearly shown that the accounting principle that was adopted in recording and calculating the cost of inventory is the “**historical cost principle**” but the market value of the remaining goods at the end of the period may be less than their cost that was calculated by one of the methods of determining the cost displayed previously, and it may be from it is not possible to recover the cost of inventory if it is damaged, or has become wholly or partly obsolete, or its selling prices have decreased, and it may not be possible to recover the estimated cost that will be incurred to complete the sale.

When such a decrease occurs in the selling or substitution prices of goods at the end of the year, it is **necessary to apply the rule of conservatism**, which is called “**the cost or the market, whichever is lower**”, i.e. the cost of goods at the end of the period (according to the method that was followed) is compared with the net selling value (realizable value) is the expected value of these goods at the time of valuation. When the net selling value is less than the cost, the lower amount is chosen for the purpose of adopting it in the income statement and the difference is recognized as an expense for the decrease in inventory prices, which affects the profit and loss account.

### Net Realizable Value

It is the estimated selling price of the inventory minus the estimated costs of making the inventory (if the inventory is not yet finished) and the estimated costs necessary to complete the sale. The principle of cost or net realizable selling value is applied based on each item of inventory. But for the service provider, it collects the costs related to the service for each service separately.

The following must be observed:

- In the case of goods that are contracted to be sold to external parties, then the contract prices are relied upon to apply the principle of cost or net realizable value to the extent that relates to the contracted quantity to be sold, and the remaining of the inventory is treated as normal inventory. But in the case that the quantity contracted to be sold exceeds the quantity of inventory held by the facility, this case is dealt with according to International Accounting Standard No. (37) Provisions, Contingent Liabilities and Contingent Assets.
- The value of the raw materials or the tasks involved in the manufacture of a good is not reduced, if it is expected that the selling price of the finished good will be at cost or above cost. In the case that the cost of the goods exceeds the net realizable value, the inventory value of raw materials is reduced by the amount of the decrease.
- In the case that the inventory value is kept at its net realizable value until the end of the next financial period, the inventory is revalued. If the net realizable value is higher than the value in the previous period, the excess is recognized and the inventory value is increased to the new realizable value.

Example: "cost or market, whichever is lower."

Example (1):

On 30-Dec/2020, Muhammad's company had inventory that cost \$77,000, the estimated selling price of the goods was \$70,000 and the estimated selling costs were \$2,000.

Required: Determine the net realizable value and the amount of impairment loss in inventory.

Example answer (1):

Net realizable value of inventory = selling price of inventory – costs of completing and selling the product

Net realizable value of inventory = 70,000 – 2,000 = \$68,000

The inventory loss is \$9,000 (77,000 - 68,000)

Example (2):

On 31-Dec/2020, Jerusalem Company had an inventory of raw materials that cost \$31,000, the estimated manufacturing cost was \$6,000 the estimated selling cost was \$1,000, and the estimated selling price for inventory was \$35,000.

Required: Determine the net realizable value of inventory and the value of raw materials inventory that will appear in the company's statement of financial position on 31-Dec/2020.

Net realizable value = Estimated selling price – (Cost to complete manufacturing + Estimated necessary cost to sell).

= \$35,000 – (\$60,000 + \$1,000) = \$28,000 dollars

Since the net realizable value is less than the cost of raw materials, a decrease in inventory loss should be recognized in the amount of \$3,000 (\$31,000 – \$28,000) it will appear in the company's statement of financial position on 31-Dec/2020 it will be \$28,000 dollars

Example: "cost or market, whichever is lower" A comparison between the results of the three styles according to the default flow method (WA, LIFO, FIFO) and for the purpose of identifying how to choose the lowest amount after determining the cost of the remaining goods, we present the following simplified example:



Depending on the results of the previous example related to the goods cost at the end of the period, as it was as follows: First In First Out (FIFO) is \$140, what comes Last In First Out (LIFO) is \$130, the Weighted Average (WA) is \$115. If we assume that there are two independent cases of the net selling value of this goods.

1. First case: \$110 dollars.

2. Second case: \$130 dollars.

1. In the first case of the example, the net selling value of \$110 will be chosen as an amount for goods at the end of the period, because it is the amount less than the amount of the cost that was determined according to each of the three previous methods.

2. In the second case, the selection decision will be as follows:

<b>Cost Determine Style</b>	<b>Cost</b>	<b>Net Selling Value</b>	<b>Decision</b>
<b>1. First In First Out</b>	\$140	\$130	Chosen \$130
<b>2. Last In First Out</b>	\$130	\$130	Chosen \$130
<b>3. Weighted Average</b>	\$115	\$130	Chosen \$115

From the above table, we find that the decision in the case that a first in first out (FIFO) style is followed, the amount will be the net selling value because it is less than the cost. But if the facility follows the (LIFO) style, there is no difference between the two amounts, so the cost amount will depend. If the facility follows the moving average (MA) style, the decision will be to choose the cost because it is less than the amount of the net selling value.



### Inventory valuation in retail establishments:

Departmental establishments or establishments that sell specific types of goods - for example, shops selling electrical appliances that sell (TV class, refrigerator class, video class) or as clothing stores (men's class, women's class, children's class, and each class can consist of: Summer and winter) such establishments apply the cost or market rule, whichever is lower (LCM) by following one of the following three methods:

1. On the basis of each type
2. On the basis of each category
3. On the basis of gross goods

Example: valuation inventory at cost or market, whichever is lower, in retail establishments

Suppose that his facility has two sections: the first section sells mobile phones of two types, iPhone and Samsung, and the second section sells computers, portable and fixed types. Below are details of the remaining quantities, the cost of one unit and the market price of the unit:

Item	Type	Remaining Quantity	Unit Cost	Selling Value
<b>Phones</b>	iPhone	40 Units	\$80	\$75
	Samsung	30 Units	\$60	\$64
<b>Computers</b>	Fixed	90 Units	\$130	\$150
	Portable	50 Units	\$200	\$170

Required: valuate the inventory at the end of the period by following the “cost or market rule, whichever is lower” and according to each of the following methods:

1. On the basis of each type.
2. On the basis of each category.

### 3. On the basis of gross goods.

To facilitate the answer, we extract the cost of the remainder of each type by multiplying the remaining quantity by the cost of one unit, for example, the cost of the remaining iPhone phones is \$3,200 = (40 units x \$80 per unit cost). We also extract the selling value of each type, as the selling price of iPhone phones is \$3,000 = (40 units x \$75 selling price per unit). The same is true for the rest of the species. To simplify the answer we include the following table:

<b>Cost or market, whichever is lower</b>						
<b>Item</b>	<b>Type</b>	<b>Cost</b>	<b>Market</b>	<b>By Type</b>	<b>By Category</b>	<b>Goods</b>
<i>Phones</i>	iPhone	3200	3000	3000		
	Samsung	1800	1920	1800		
	Total	5000	4920		4920	
<i>Computers</i>	Dell	11700	13500	11700		
	hp	10000	8500	8500		
	Total	21700	22000		21700	
<b>Residual value by type</b>				<b>25000\$</b>		
<b>Residual value by category</b>					<b>26620\$</b>	
<b>Total</b>		<b>26700\$</b>	<b>26920\$</b>			<b>26700\$</b>

From the above table, we find that the value of the inventory at the end of the period to be approved in the budget when applying the “cost or market, whichever is lower” rule, according to each of the following methods, is:

1. According to each type, \$25,000 dollars.
2. According to each category, \$26,620 dollars.
3. According to the total goods, \$26,700 dollars.

## **Eighth: Inventory treating at net realizable value**

We mentioned in the previous part of this chapter that the inventory is recorded in the accounting books when purchasing at cost, then at the end of each financial period and when preparing the financial statements, the inventory is valued at cost or net realizable value, whichever is lower. In the case that the net realizable value of the inventory is less than its cost, the difference must be recognized as a loss and shown in the income statement for the period in which the decrease occurred. There are two ways to recognize inventory loss:

### **The first method: is the sales cost method**

In this method, the sales cost account is charged by the amount of the decrease in the value of the inventory by making it debit the difference, which results in an increase in the cost of sales and thus a decrease in the gross and net profit for the period, while the crediting party for the entry is an inventory account.

<b>Date</b>	<b>Description</b>	<b>Debit</b>	<b>Credit</b>
31-Dec	Cost of Goods Sold	xxx	
	Inventory		xxx

### **The second method: is the losing method**

The account for the **loss of low in inventory prices** is charged by the decrease in the “realizable value” by the decrease in the value of the inventory by making it debit the difference, while the crediting party for the entry is centered in the account of the **provision for lower inventory prices**.

And then the account of the Loss of low inventory prices is closed in the income summary, by reverse the account from debit to credit, and in general, it is preferable to center the account of the provision for lower inventory, since this method allows giving more details in the income statement and financial

position statement, which facilitates reading and understanding the financial statements in a clearer way.

<b>Date</b>	<b>Description</b>	<b>Debit</b>	<b>Credit</b>
31-Dec	Loss of low inventory prices	xxx	
	Provision for lower inventory prices		xxx
	Closing the loss in the income summary		
31-Dec	Income Summary	xxx	
	Loss of low inventory prices		xxx

The decline loss is disclosed in the income statement directly after subtracting the cost of goods sold so that it is possible to know the gross profit before and after the decline loss. As for the decline provision, it is transferred to the budget and subtracted from the inventory at the end of the period, valued at cost, to produce the inventory, valued at the lowest market price, as will be illustrated by the following example:

Example (1): On 31-Dec/2020, the inventory of the Tigris and Euphrates Industrial Company was counting, as the inventory cost amounted to \$20,000, while the net realizable value amounted to \$15,000, and the company's net sales value for the year 2020 amounted to \$300,000, while the cost of sales amounted to \$100,000.

Required:

1. Proof of the journal entry for the decrease in the value of inventory by using the sales cost method, and showing how to show both the inventory in the balance sheet and the loss of low inventory in the income statement for the year 2020.
2. Proof of the journal entry for the decrease in the value of inventory by using the loss method, and showing how to show both the inventory in the

balance sheet and the loss of low inventory in the income statement for the year 2020.

Example answer (1):

### 1- Sales cost method

The loss of low inventory is \$5,000 (20,000 - 15,000), in light of this, the following entry is proof for recognizing a loss of low inventory directly:

Date	Description	Debit	Credit
31-Dec	Cost of Goods Sold	5000	
	Inventory		5000

In light of the above, the cost of sales and gross profit appear in the income statement for the year 2020 if the cost of sales is charged with the decrease in inventory as follows:

Tigris and Euphrates Industrial Company	
Income Statement for the year 2020	
Sales	300000
(-) Sales cost (100000+5000)	(105000)
Gross Profit	195000

It is noted that the cost of sales has been increased by the amount of the decrease in inventory cost of \$5,000.

As for the inventory, it appears in this case in the company's balance sheet on December 31, 2020 as follows:

**Tigris and Euphrates Industrial Company**

**Financial Position Statement 31-Dec/2020**

Current assets	
Inventory	15000

## 2- Losing method

Under this method, a Loss of low inventory of \$5,000 (20000-15000) is recognized in an intermediary account, which is the "Provision for lower inventory prices" for the net realizable value, so the entry becomes as follows:

Date	Description	Debit	Credit
31-Dec	Loss of low inventory prices	5000	
	Provision for lower inventory prices		5000

In light of the above, the cost of sales and gross profit appear in the income statement for the year as follows:

Tigris and Euphrates Industrial Company	
Income Statement for the year 2020	
Sales	300000
(-) Sales cost	(100000)
Gross Profit	200000
(-) Loss of low inventory prices	(5000)
Net profit before tax	195000



It is noted that the “loss of low inventory” was shown in a separate account in the income statement, which will lead to a decrease in the net profit for the period, in contrast, the cost of sales account was not affected by the amount of inventory decrease.

As for the “provision for lower inventory” account for the net realizable value, it appears under inventory in the company’s balance sheet on December 31, 2020 as follows:

<b>Tigris and Euphrates Industrial Company</b> <b>Financial Position Statement 31-Dec/2020</b>	
Current assets	
Inventory at cost	20000
(-) Provision for lower inventory prices	(5000)
Actual inventory value	15000

Finally, the entry of the loss of low inventory prices is closed in the income summary account as follows:

Date	Description	Debit	Credit
Closing the loss in the income summary			
31-Dec	Income summary	5000	
	Loss of low inventory prices		5000

## **Ninth: Recovery of low inventory losses**

When there is a decrease in inventory prices below the cost price, the inventory is reduced and the decrease is recognized as a loss according to the rule of conservatism and then the value of the inventory is recorded to the net realizable value in the financial position and this value is transferred to the next financial period, and when preparing the financial statements for the next period the inventory valuation, the value of Inventory carried forward from the previous period or part of it may still be with the entity without sale, which requires recalculating the net realizable value of the inventory as it is at the end of the next period. In this case, there are three possibilities that the entity may face with regard to net realizable value:

1. That there has been no change in the net realizable value of the inventory for the current period compared to the previous period, and in this case, no restrictions related to that are made.
2. The occurrence of an additional decrease in the net realizable value compared to the previous period. In this case, the entity must recognize the additional decrease as a loss and treat it similarly to what was explained in the previous part of this chapter.
3. An increase in the net realizable value compared to the previous period. In this case, the increase in the value of the inventory is recognized in an amount not exceeding what was previously recognized as a loss in the previous period or periods only, in application of the principle of inventory valuation at cost or net realizable value, whichever is lower.

In the case that there is a high increase in the net realizable value for the following periods, the net realizable value may become greater than the cost of (purchasing inventory). In this case, the inventory is revalued to the purchase cost, and the increase constitutes the net selling profit. As will be illustrated by the following example:

Example (1): On 31-Dec/2021, the inventory of the Tigris and Euphrates Industrial Company was counted, as the cost of the inventory amounted to 15,000 dollars, while the net realizable value amounted to 30,000 dollars, and the company did not make any sale or purchase during the year 2021, and the value of the decrease in inventory prices was 5000 dollars for the year Previous 2020, the facility applied the principle of valuing inventory at cost or net realizable value, whichever is lower, and treating inventory.

Required:

1. Proof of the journal entry related to recovery of low inventory losses.

Date	Description	Debit	Credit
31-Dec	Ending inventory	5000	
	Recovery of low inventory losses		5000

We recorded the inventory in the debit account in the amount of 5000 dollars, which is the amount that was reduced in the previous period, and thus the value of the inventory returned to what it was in the past as a result of the increase in inventory prices after the decrease, as for the credit account, it is the recovery of inventory loss, and it appears in the income statement within the expenses with a positive value, and it is combined with the gross profit, and then the expenses are subtracted, which leads to an increase in the net profit.

The recovery of low inventory losses is closed in the income summary account as follows:

Date	Description	Debit	Credit
Closing the recovery loss in the income summary			
31-Dec	Recovery of low inventory losses	5000	
	Income summary		5000

## **Tenth: Accounting treatment of lost and damaged inventory**

The inventory department may be exposed to damage or shortage due to natural reasons such as humidity and heat, or as a result of transporting from loading and unloading, or as a result of unnatural factors such as theft or negligence of the storekeeper.

In this case, a settlement must be made and the shortage or damage to the goods must be proven and reduced from the inventory records, and then search for the reasons of this damage or loss. The accounting treatment is as follows:

1. We prove the damaged goods and exclude them from the inventory account at the end of the period.

Date	Description	Debit	Credit
	Damaged goods	xxx	
	Ending inventory		xxx

2. Searching for the reasons of damage or loss of the goods

- If the damage is the result of natural factors, it is considered a loss for the facility and is closed in the income summary account.

Date	Description	Debit	Credit
	Income summary	xxx	
	Damaged goods		xxx

- If the damage was the result of unnatural factors such as the negligence of the storekeeper, the store keeper shall bear the value of the damaged goods:

Date	Description	Debit	Credit
	Store keeper	xxx	
	Damaged goods		xxx

The balance of the store keeper appears in the balance sheet on the assets side within other debit accounts.

- If the facility was able to sell the damaged goods at their cost, we prove the following entry:

Date	Description	Debit	Credit
	Cash	xxx	
	Damaged goods		xxx

But if the damaged item is sold at less than the cost, we prove the following entry:

Date	Description	Debit	Credit
	Cash	xxx	
	Income summary	xxx	
	Damaged goods		xxx

## Eleven: Inventory error

Errors sometimes occur when determining the quantity of inventory, or in the price, or in adding goods that do not belong owned to the facility, and therefore the value of the inventory is either higher or less than the actual value, which reflects its effect on the financial statements in the inventory at the end of the period:

(a). **Affects the cost of goods sold** that appears in the income statement, and it is a specific component of profit or loss, which in turn will affect on the owner equity.

(B). In addition, inventory, on the other hand, is a **current asset** that must be disclosed in the balance sheet, and therefore the balance sheet will not expresses the financial position of the facility correctly.

Since the inventory of the end of the current period will be the inventory of the beginning of the next period, this means that the financial statements for the next year will also be affected by calendar errors.

### **Example: The effect of inventory valuation errors at the end of the period**

Assuming that all the data extracted from the ledger of one of the establishments are correct, except that the inventory at the end of the financial year 2020 was calculated less its reality by /\$1500/ (the error is /\$6000/, and the correct is /\$7500/).

Required: Explain the effect on the income statement and budget for the years 2020 and 2021



1. The effect of the error in valuation the ending inventory at 2020 less than the real value of \$1,500/ on the income statement:

Income Statement	Error effects in 2020		Following effects in 2021	
	error	correct	error	correct
Net sales		40000	45000	45000
Beginning inventory	10000	10000	6000	7500
(+) Cost of goods purchased	20000	20000	34000	34000
= Cost of goods available for sale	30000	30000	40000	41500
(-) Ending inventory	6000	7500	11500	11500
= Cost of goods sold		22500	28500	30000
Gross profit		16000	16500	15000
(-) Operating expenses		5000	10000	10000
= Net Profit		11000	6500	5000
Error 2020 led to:				
Cost of goods available for sale	No affect		Decrease	
Cost of goods sold		Increase		Decrease
Gross profit		Decrease		Increase
Net Profit		Decrease		Increase

1. Summary of the effect of the ending and beginning inventory error on the gross and net profit in the income statement and on the cost of goods sold:

Error type	Effect on cost of goods sold	Effect on gross and net profit
Reduce ending inventory /1500/	↑ increase 1500	↓ decrease 1500
Amplify ending inventory /1500/	↓ decrease 1500	↑ increase 1500
Reduce beginning inventory /1500/	↓ decrease 1500	↑ increase 1500
Amplify beginning inventory /1500/	↑ increase 1500	↓ decrease 1500

**As a result of the effect of the ending inventory valuation error on  
(cost of goods sold)**

- ❖ **The error “decrease”** amplify the cost of the current cycle, and reduce the next cycle.
- ❖ **The error “increase”** reduce the cost of the current cycle, and amplify the next cycle.

**As a result of the effect of the ending inventory valuation error on the  
(income statement)**

- ❖ **The error “decrease”** reduce the net profit of the current cycle, and amplify the next cycle
- ❖ **The error “increase”** amplify the net profit of the current cycle, and reduce the next cycle

It is worth noting that the error in the inventory of goods at the end of the period is not limited to the income statement for the current financial period, but its effect extends to the next year, as it affects the calculation of the cost of goods sold and thus the gross profit and net profit for the following year. For

example, the error in the goods at the end of the period by the increase leads to a decrease in the cost of the goods sold for the same period and thus amplify both the gross profit and the net profit for the same period, and since the goods at the end of the period for the current financial period are the same as the goods of the beginning of the period for the following financial period, this error in the inventory will lead to amplify both the inventory at the beginning of the period and the cost of goods sold in the following financial period. Amplifying the cost of goods sold in the following financial period leads to a reduction in both gross profit and net profit.

Budget 31-Dec	2020	2021
	error	error
Current assets: Merchandise inventory	↓ decrease 1500	
Owner equity: Capital	↓ decrease 1500	↑ increase 1500

**As a result of the effect of the end-of-period inventory valuation error on the (budget)**

- ❖ **The error “increase”** amplify the current assets, and amplify the owner equity in the current cycle.
- ❖ **The error “decrease”** reduce current assets, and reduce the owner equity in the current cycle, but in the next cycle it will have the opposite effect on the owner equity: an increase becomes a decrease, and a decrease becomes an increase.

## Chapter questions and exercises

Multiple choice questions (the answers are at the end of the questions):

1) Which of the following options does not count as inventory cost:

- a. Customs duties and sales tax are not refundable.
- b. Transportation and clearance expenses related to inventory.
- c. Inventory unit maintenance expenses.
- d. Insurance expenses paid on the goods during shipment.

2) Which of the following methods gives the highest value of the inventory in the case of an upward trend in prices:

- a. First in, first out.
- b. Weighted average.
- c. Last in, out first.
- d. Moving average.

3) Among the advantages of the perpetual inventory system compared to the periodic inventory system:

- a. The cost of its implementation is lower than the application of the periodic inventory system.
- b. Access to inventory cost of merchandise is faster than it is in periodic inventory.
- c. Use an account for purchases and an account for sales.
- d. All answers above are correct.

4) When the buyer returns his goods to the seller at a selling price of /\$600/ and its cost on the seller of /\$400/, among the accounts that will appear in the

seller's books when following the perpetual inventory system:

- a. Sales returns account debit /\$400/ and cost of goods sold credit /\$400/.
- b. Sales returns account credit /\$600/ and cost of goods sold debit /\$400/.
- c. Sales returns account debit /\$600/ and cost of goods sold credit /\$400/.
- d. Sales returns account debit /\$600/ and inventory credit /\$400/.

5) When the buyer returns his goods to the seller, the amount sold is /600/ and its cost to the seller is /400/. Among the accounts that will appear in the buyer's books when following the perpetual inventory system:

- a. Purchase returns account debit 400 and the cost of goods sold credit 400.
- b. Merchandise inventory account credit 600.
- c. Purchase returns account debit 600.
- d. Merchandise inventory returns account credit 400.

Choose the correct answer for the following three paragraphs (6,7,8) based on the following data:

- On 1/1, a trading company started with goods of 1500 units at a cost of \$3 per unit.
- On 1/6 the company purchased 2500 units, the unit cost is 3.6 dollars.
- The company sold 2,300 units during the year.
- I assume that the company follows the periodic inventory system.

6) The cost of goods at the end of the period according to the FIFO style will be:

- a. 5220 Dollars.
- b. 6120 Dollars.
- c. 8280 Dollars.
- d. 7380 Dollars

7) The cost of goods sold according to the LIFO style will be:

- a. 5700 Dollars.
- b. 7380 Dollars.
- c. 8280 Dollars.
- d. 6120 Dollars.

8) The cost of goods sold according to the weighted average style (WA) will be:

- a. 7380 Dollars.
- b. 8280 Dollars.
- c. 5737.5 Dollars.
- d. 7762.5 Dollars.

9) Assuming that the cost of goods at the beginning of the period is \$2400/, and the cost of goods available for sale is \$5600/, and the cost of goods sold according to the style of last in first out is \$4500/, then the cost of the purchased goods:

- a. 3200 Dollars.
- b. 6900 Dollars.
- c. 8000 Dollars.
- d. 1100 Dollars.

10) Assuming that the cost of the purchased goods is /4,000/ dollars, the cost of goods available for sale is /5600/ dollars, and the cost of the remaining goods is at the end of the period, and according to the style of last in first out, /1500/ dollars, the cost of goods at the beginning of the period is:

- a. 1600 Dollars.
- b. 9600 Dollars.
- c. 4100 Dollars.
- d. 7100 Dollars.

11) Merchandise inventory is shown in the financial statements:

- a. Cost price or market price, whichever is lower.
- b. Cost price or fair value, whichever is lower.
- c. Cost price or net realizable value, whichever is lower.
- d. Cost price or sale price, whichever is lower.

12) In cases of inflation, if company (X) used the weighted average style (WA) instead of (FIFO), any of the following statements are wrong:

- a. The cost of goods available for sale will not change.
- b. The number of inventory units will not change.
- c. The cost of goods available for sale will decrease.
- d. Gross profit will decrease.



13) On 30-December/2015, the stores of a commercial company were exposed to a fire, which led to the damage of part of its inventory. The following are some of the data you had about the movement of goods during the year 2015:

Description	Dollar
Inventory 01-Jan	7000
Goods purchases during the year 2015	40000
Goods sales during 2015	50000
Goods inventory on 30/12/2015 was not exposed to fire	6000
Gross Profit Ratio	40%

What is the value of the goods damaged as a result of the fire?

- a. 11000 Dollars.
- b. 11600 Dollars.
- c. 24000 Dollars.
- d. 30000 Dollars.

14) When inventory counting 31-12 according to the periodic inventory system, the entry in which goods is recorded at the end of the period is:

- a. Account of the cost of goods sold debit and income summary account credit.
- b. Income summary account debit and ending inventory account credit.
- c. Ending inventory account debit and income summary account credit.
- d. Account of the cost of goods sold debit and the account of the ending inventory credit.

15) Reducing goods at the beginning of the period by mistake results in:

- a. An increase in the cost of goods sold and a decrease in gross profit.
- b. A decrease in the cost of goods sold and an increase in gross profit.
- c. Increase in current assets and an increase in the owner equity.
- d. A decrease in current assets and a decrease in the owner equity.

16) The following are data related to a commercial company for the monthly financial period ending on December 31, 2018:

- Goods balance 1/12/2018 equals 255 units at a price of \$5 per unit.
- Units sold in 4/12 equal 170 units.
- Purchases of 340 units on 8/12 at a price of 6 dollars per unit.
- Units sold on 10/12 equal 255 units.
- Purchases of 340 units on 8/12 at a price of 7 dollars per unit.
- Units sold on 12/15 are equal to 425 units.

In light of the previous information, and if the company uses the last-in, first-out (LIFO) style in accounting for inventory, the value of the end-of-period inventory in the case of perpetual inventory is equal to:

- |                 |                  |
|-----------------|------------------|
| a. 425 Dollars. | c. 1275 Dollars. |
| b. 595 Dollars. | d. 2380 Dollars. |

17) The following are data on the movement of item (X) in a company that follows the periodic inventory system:

Description	Units	Unit price
Inventory 1/1/2018	400	\$3.2
Purchases 3/1	1100	3.1\$
Purchases 7/1	600	3.3\$
Purchases 15/1	900	3.4\$
Purchases 22/1	250	3.5\$

The number of units sold during the month is 2650 units.

In light of the above information, the cost of inventory according to the first-in, first-out style:

- |                  |                  |
|------------------|------------------|
| a. 1900 Dollars. | b. 2065 Dollars. |
|------------------|------------------|

c. 1920 Dollars.

d. 2100 Dollars.

18) The following data was extracted from the company's trial balance on December 31, 2019 purchases transport expenses (20000) dollars, purchase returns and discounts (80000) dollars, selling and marketing expenses (200,000) dollars, goods at the end of the period (90000) dollars. If the cost of goods sold is equivalent to (700%) of selling and marketing expenses, then the cost of goods available for sale during 2019:

a. 1390000 Dollars.

c. 1490000 Dollars.

b. 1500000 Dollars.

d. 1590000 Dollars.

19) During a period when prices are high for materials, if a company uses the first-in, first-out (FIFO) method in determining the cost of inventory, assuming other factors remain the same. If the company used the last-in, first-out (LIFO) method, any of the following statements are true:

a. The cost of goods available for sale goes up.

b. Cost of goods sold goes up.

c. The gross profit goes up.

d. The number of inventory units goes up.

20) A company sells its goods at a gross profit of 30% of sales. The following are some figures related to the company's operations during the six months ending on 30/6/2020:

Description	Value
Sales	200000 Dollars
Beginning inventory	50000 Dollars
Purchases	130000 Dollars

On 30/6/2020, the entire inventory was damaged due to poor storage. The estimated cost of the damaged stock was:

- a. 120000 Dollars.
- b. 70000 Dollars.
- c. 40000 Dollars.
- d. 20000 Dollars.

21) The following are some data available on the goods with a trading company:

	<b>Selling price</b>	<b>Cost</b>
Inventory 1/1	180000	72000
Purchases	600000	396000
Sales	540000	

The value of the inventory at the end of the estimated period, according to the retail style is:

- a. 144000 Dollars.
- b. 124800 Dollars.
- c. 120000 Dollars.
- d. 324000 Dollars.

**The answers to the previous questions will be as follows:**

Question Number	Correct Answer	Question Number	Correct Answer
1	c	12	a
2	a	13	a
3	b	14	c
4	c	15	b
5	b	16	a
6	d	17	b
7	c	18	c
8	d	19	b
9	a	20	c
10	a	21	a
11	c		

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## Accounting-Related Organizations

The organizations specialized in the field of accounting

- Governmental Accounting Standards Board (GASB):

<https://www.gasb.org>

- Financial Accounting Standards Board (FASB):

<https://www.fasb.org>

- U.S. Securities and Exchange Commission (SEC):

<https://www.sec.gov>

- Association of Chartered Certified Accountants (ACCA):

<https://www.accaglobal.com>

- Institute of Management Accountants (IMA):

<https://www.imanet.org>

## Accounting Exams and Certificates

These sites provide information on exams and professional certifications.

### ❖ Certified Public Accountant (CPA)

- American Institute of Certified Public Accountants (AICPA):

<https://www.aicpa.org/content/aicpa>

- National Association of State Boards of Accountancy (NASBA):

<https://nasba.org>

- This Way to the CPA:

<https://thiswaytocpa.com>

### ❖ Certified Management Accountant (CMA)

- Institute of Management Accountants (IMA):

<https://www.imanet.org/cma-certification?ssopc=1>

### ❖ Certified Internal Auditor (CIA)

- Institute of Internal Auditors (IIA)-Global:  
<https://global.theiia.org/Pages/globaliiaHome.aspx>
- Institute of Internal Auditors (IIA)-North America:  
<https://na.theiia.org/Pages/IIAHome.aspx>

❖ **Certified Fraud Examiner (CFE)**

- Association of Certified Fraud Examiners (ACFE):  
<http://www.acfe.com/default.aspx>

❖ **Chartered Financial Analyst (CFA)**

- CFA Institute:  
<https://www.cfainstitute.org/Pages/index.aspx>

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